SALT

Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – June 2023

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

Investment Strategy

The Fund's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE Global Core Infrastructure 50/50 Net Tax Index on a rolling three-year basis. The Fund targets a portfolio of global infrastructure companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

Fund Facts at 30 June 2023

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$49.51 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 June 2023

Application	0.9647
Redemption	0.9607

Investment Guidelines

The guidelines for the Sustainable Global Listed Infrastructure Fund are:

Global equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Global Sustainable Listed Infrastructure Fund is:

Global equities	100%

Fund Allocation at 30 June 2023

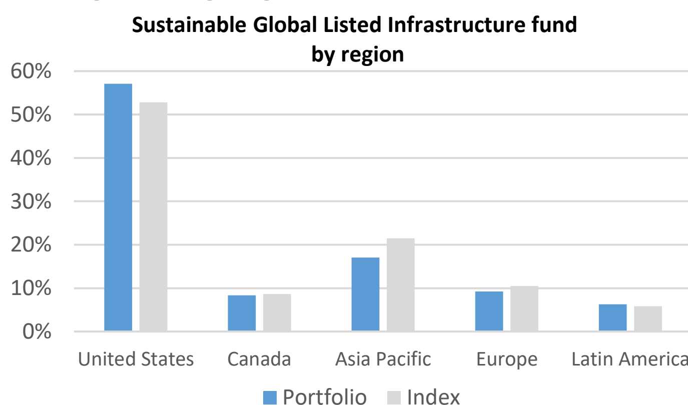
Global equities	99.3%
Cash and cash equivalents	0.7%

Fund Performance to 30 June 2023

Period	Fund Return*	Benchmark Return
1 month	2.41%	1.96%
3 month	-0.52%	-0.60%
6 month	-0.17%	-0.67%
1 year	-2.03%	-2.40%
Since inception p.a.	0.82%	-0.10%

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 June 2023.

Fund regional weightings as at 30 June 2023*



Source: Cohen & Steers, Salt *data to 30 June 2023

Top 10 holdings	sector		sector
NextEra Energy	Electric	CSX	Freight Rail
American Tower	Towers	SBA Communications	Towers
Sempra	Gas Dist.	Center Point Energy	Electric
Transurban	Toll Roads	Cheniere	Midstream
Canadian Pacific Kansas City Rail	Freight Rail	PPL	Electric

The fund's top 10 holdings comprise 36.6% of the portfolio.
Source: Cohen & Steers Monthly Investment Report 30 June 2023

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.7	6.4
MSCI ESG score	6.3	6.3

Source: Cohen & Steers Monthly Investment Report 30 June 2023

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Market Review

- June month saw global stocks rebounding 6.1% and by 7.0% for the June quarter, in USD terms. Expressed in NZD terms, global equities (MSCI World Index) returned less for the month (+3.75%) but more for the three-month period (+9.10%,) reflecting volatility in the NZD/USD exchange rate. Global markets overcame uncertainty over economic slowing, still-elevated inflation and central bank policy and focused on now-lower recession probabilities.
- The first half of 2023 has been much better for balanced portfolios than the challenging 2022 year. A 9.1% (in NZD) gain for developed market equities over the quarter leaves them 18.8% higher year to date. Global sovereign bonds have lagged but are still doing better than last year rising 1% (in USD) year to date.
- The positive tone in markets this year has been driven by a generally improving outlook for global growth as economies have proven to be more resilient than expected to the recent aggressive tightening in monetary conditions. However, underlying inflation has also proven to be more persistent, so we are not out of the woods yet.
- US inflation has fallen sharply from a peak of 9% to 4%, but mostly due to lower oil prices. Core inflation has remained stickier as the labour market has remained tight and wage growth in excess of the level consistent with target inflation.
- The US consumer has continued to spend, reflecting still high excess cash, lower savings and continued employment gains that have averaged 314,000 per month since the start of the year. Weaker business investment intentions and weak corporate loan demand pose risks for growth going forward.
- Economic activity in Europe has proven stronger than expected as the lower energy prices has delivered real income gains back to consumers. However, in order to contain still problematic underlying inflation pressures, what lower oil prices have delivered to consumers, the European Central Bank has had to take away. With core inflation still in excess of 5% the ECB has raised interest rates to 3.5%, with more hikes still to come.
- After the end of the zero-Covid bounce in activity in China, macro data over the June quarter has pointed to a renewed slowdown. We think that the slowing reflects the payback of front-loaded production and policy easing, which are one-off factors, but the recovery is far from over, given that the job market recovery is incomplete. Given that the recovery has remained fragile, we believe the authorities would stand ready to support growth as needed.
- In Australia there are increasing signs that the activity is slowing after a very strong period of growth in 2022. The labour market has remained resilient though it typically lags growth. The RBA is taking a stop-start approach to raising interest rates. We think they have more work to do; we see the cash rate rising to 4.6% in the next few months.

Portfolio Review

Listed infrastructure stocks posted a modest negative total return during the second quarter against a backdrop of rising interest rates and a cloudy economic outlook. After raising its benchmark short-term lending rate for a tenth consecutive time in May, the Federal Reserve paused in June. However, the 10-year U.S. Treasury note yield moved higher on resilient U.S. economic data and hawkish comments from Fed officials regarding the need for additional rate hikes. Meanwhile, China continued to report weak economic data.

Commercial infrastructure sectors generally outperformed. Railways (6.8% total return) benefited from better-thanfeared economic data, which offset concerns over challenging U.S. freight volumes. The marine ports sector (6.0%) was also a top performer following earlier weakness. Shares of an India-based port operator rallied as an Indian panel's investigation into potential violations by the company's parent found no conclusive evidence of wrongdoing. Also, shares of a Brazilian company moved higher on merger speculation. Midstream energy (0.2%) benefited late in the quarter from stabilizing oil prices and sharply rising natural gas prices.

Utilities and communications were hurt by rising interest rates. The gas distribution sector (–0.1%) lagged partly due to continued weak Chinese economic data. Electric utilities (–1.6%), particularly in the U.S., were weighed down by rising interest rates, which offset their defensive characteristics in the uncertain economic environment.

Water utilities (–3.6%) were likewise hindered by higher interest rates. Communication stocks (–5.8%) were impacted by rising interest rates and generally near-term fundamental challenges for U.S. tower companies.

Passenger transportation-related sectors were mixed. Toll roads (2.1%) were driven mainly by stock-specific news. Shares of the sector's largest constituent edged higher despite some weak data in Australia. Brazilian toll road operators benefited from improving inflation data and expectations for rate cuts in the second half of the year. The airports sector (–2.4%) gave back some of its strong first-quarter performance as the latter stage of the reopening cycle presents more challenging year-over-year comparisons.

Portfolio performance

Key contributors

• Security selection in electric utilities (–1.6% total return in the index): Contributors included an out-of-index position in Constellation Energy; its shares rallied on healthy earnings, improved guidance, and higher natural gas prices.

• Security selection in midstream energy (0.2%): The portfolio's overweight in U.S.-based Targa Resources contributed to performance; the company has a compelling asset footprint in the Permian Basin and is uniquely positioned to benefit from production growth in the region.

• Overweight allocation in railways (6.8%): An overweight to the sector was beneficial; in particular, an overweight to CSX contributed to performance. The company, which we believe is the most efficient freight operator, reported volumes that exceeded expectations.

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Key detractors

• Stock selection in water utilities (–3.6%): Rising interest rates negatively impacted an overweight position in U.S.-based Essential Utilities.

• Security selection in gas distribution (–0.1%): An overweight position in China-based ENN Energy detracted from relative returns; the stock was dragged down by weak economic data in the country, which could hurt gas demand and fees collected for new connections.

• Stock selection in airports (–2.4%): An overweight position in Mexico-based airport operator Grupo Aeroportuario del Sureste declined along with the overall sector, but the stock remained a strong performer for the first half of the year.

Investment Outlook (Cohen & Steers commentary)

We maintain a generally balanced portfolio given falling (but still above-trend) inflation, the repercussions from central bank monetary tightening, and the uncertain outlook for global growth. Against this backdrop, we favour higher-quality businesses that we believe are positioned to perform relatively well in a below-trend growth environment.

We are also focused on the potential capital needs of individual companies looking to shore up their balance sheets. In particular, we are mindful of companies leaning toward asset sales, as the proceeds may fall short of their expectations.

The fallout from challenges in the U.S. banking industry could weigh on the economy. We do not believe recent bank distress represents a systemic risk to the global economy, as larger banks are well capitalized and have diversified deposit bases. However, we expect to see a more challenging credit environment. In particular, we are carefully monitoring the impact of higher financing costs and tighter financial conditions (including their potential impact on earnings and cash flows) across the infrastructure universe.

We favour investments in infrastructure companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules. Persistent inflation and “higher for longer” interest rates may challenge certain sectors. While inflation is expected to moderate, the Fed has made clear its commitment to bring down sticky inflation with further monetary tightening. Most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of persistent inflation.

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